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FM AMEMBASSY RANGOON  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 6802  
INFO RUCNASE/ASEAN MEMBER COLLECTIVE  
RUEHBY/AMEMBASSY CANBERRA 0679  
RUEHBJ/AMEMBASSY BEIJING 1585  
RUEHKA/AMEMBASSY DHAKA 4664  
RUEHNE/AMEMBASSY NEW DELHI 4216  
RUEHUL/AMEMBASSY SEOUL 7770  
RUEHKO/AMEMBASSY TOKYO 5330  
RUEHCN/AMCONSUL CHENGDU 1249  
RUEHCHI/AMCONSUL CHIANG MAI 1196  
RUEHCI/AMCONSUL KOLKATA 0118  
RUEHMT/AMCONSUL MONTREAL 0044  
RUEAIIA/CIA WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RUEKJCS/DIA WASHDC  
RUEHGV/USMISSION GENEVA 3376  
RHEHNSC/NSC WASHDC  
RUEKJCS/SECDEF WASHDC  
RUEKJCS/JOINT STAFF WASHDC  
RUCNDT/USMISSION USUN NEW YORK 1114  
RUEHBS/USEU BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 03 RANGOON 001098

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STATE FOR EAP/MLS; INR/EAP, EEB/TFS, EEB/TRA  
MONTREAL FOR ICAO/LFAUX-GABLE  
PACOM FOR FPA  
TREASURY FOR OASIA:SCHUN

E.O. 12958: DECL: 11/09/2017  
TAGS: [ECON](#) [PREL](#) [PGOV](#) [EAIR](#) [BM](#)  
SUBJECT: BURMA'S INTERNATIONAL AVIATION INDUSTRY CRASHING  
DOWN

REF: A) RANGOON 1095 QB) RANGOON 1048

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Classified By: Economic Officer Samantha A. Carl-Yoder for Reasons 1.4  
(b and d)

¶1. (C) Summary. Two of Burma's three international air carriers, Air Bagan and Myanmar Airways International (MAI), have begun to shut down their operations, although for very different reasons. Air Bagan, feeling the financial pinch of the latest round of U.S. sanctions, stopped its service to Singapore and plans to "temporarily" halt flights to Bangkok later this month. The company has difficulties obtaining spare parts and recently lost its engine maintenance contract. MAI, a joint venture between the Burmese Government and Singapore's Region Air, operates in the red, and recently lost its flight insurance, terminated its aircraft lease, and suspended all flights. MAI General Manager complained that, although the GOB is a majority shareholder in the company, senior leaders were unwilling and financially unable to assist the company. If trends continue, MAI will go out of business by December, and Air Bagan may shortly follow. End Summary.

The Collapse of Air Bagan  
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¶2. (SBU) Despite continuing problems in Burma's domestic airline sector (septel), the Burmese Government heralds its limited international business as the future of Burmese aviation. Until recently three Burmese companies -- Air Bagan, owned by regime crony Tay Za; Myanmar Airways

International, a joint venture between the GOB and Singapore-owned Region Air; and Air Mandalay, a joint venture between the GOB and Singapore -- provided international service, connecting Rangoon to neighboring destinations such as Singapore, Bangkok, Kuala Lumpur, Chiang Mai, and Kunming.

However, the recent political crisis and subsequent international reaction have taken a toll on Burma's fledgling international aviation industry. Since October, airline bookings for both domestic and international travel, have declined by more than 50 percent.

13. (C) Air Bagan, launched in 2004 by Tay Za, began as a domestic airline but quickly entered into the international market. In June 2007, the company, flying two A-310s that seat up to 200 passengers, launched daily service to Bangkok.

One of Air Bagan's pilots told us that the maiden flight to Bangkok experienced technical problems, and the pilots were almost forced to crash land. The plane was grounded in Bangkok, and Air Bagan had to charter a plane for the return leg. In August, Air Bagan limited its flights to Bangkok to three times a week, due to lack of passengers. Despite limited success with its Bangkok flights, Air Bagan began daily flights to Singapore in September.

14. (C) According to Air Bagan Director Aung San, the Singapore flight failed quickly, and by early October, the company curtailed its flights to Singapore to twice a week. After the fuel price hikes in mid-August, Air Bagan observed a forty percent decrease in its passengers. People had limited income and were not flying, Aung San complained. The latest U.S. sanctions made the situation worse, he continued (Ref B). Two days after Air Bagan was added to the sanctions list, Air Bagan suspended flights to Singapore. According to industry insiders, Rolls Royce and Pratt and Whitney, the companies that handled Air Bagan's maintenance contracts in

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Singapore, terminated their contracts with Air Bagan because of U.S. sanctions. In early November, Air Bagan grounded one of its A310s, and has limited flying time left for two of its Fokker 100s.

15. (C) Tay Za, in a recent press conference (Ref A), stated that Air Bagan would "temporarily" halt service to Bangkok and would instead focus on building its domestic market share. MAI Managing Director Aung Gyi confirmed that Tay Za and his companies were feeling the pressure of U.S. sanctions. Because the Singaporean banks will no longer do business with Tay Za, his companies are slowly being forced out of business. The halt in service is not temporary, he affirmed, and Air Bagan, which has difficulty obtaining spare parts and maintenance for its planes, may begin to stop domestic flights. According to Aung Gyi, the senior generals are angry because the collapse of Air Bagan will limit their ability to move people, money, and luxury goods in and out of the country.

MAI: Down and Out

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16. (SBU) In 1993, state-owned Myanmar Airways and Singapore-based Highsonic Enterprises joined forces to create Myanmar Airways International. The joint venture was dissolved in 1997, and in January 2001, Singapore company Region Air purchased 49 percent of MAI. Although MAI used to fly to destinations such as New Delhi, Hong Kong, and Seoul, due to lack of passengers, it has only serviced Kuala Lumpur, Singapore, and Bangkok for the past five years. MAI flew three planes - one Boeing 707 and two MD-82s.

17. (C) In early October, MAI announced that because of the protests and subsequent violent government crackdown, its insurance underwriter had cancelled its insurance policy on all MAI planes. Consequently, MAI lost its aircraft leases, so had to halt operations. MAI General Manager Aung Gyi admitted to us that the loss of insurance was not the real

reason for MAI's suspension of service. According to Myo Than, Assistant General Manager of MAI, Lloyds did not cancel the insurance, but rather MAI could no longer afford to pay the insurance premiums. MAI is broke, Aung Gyi explained. The political turmoil, the lack of tourists coming to Burma, and the inability of Burmese to afford international travel meant that MAI was not making any money and could no longer afford the insurance premiums, aircraft maintenance, and leases. Aung Gyi also complained that the GOB gave preferential treatment to Air Bagan, offering it better time slots for international flights and not charging airport landing and user fees. MAI cannot not compete with Air Bagan, despite providing better and safer service, he lamented.

18. (C) Noting that other state-owned enterprises, including Myanmar Airways, receive a budget from the government, Aung Gyi stated that the GOB has requested MAI's numerous requests for financial assistance. The Ministry of Transportation has no money, Myo Than commented, and the GOB is unwilling and unable to allocate funds for the aviation sector. Unhappy with the joint venture and the GOB's lack of commitment, Region Air will no longer foot the bill, Aung Gyi informed us. As a result, the GOB has demanded that MAI terminate the joint venture with Region Air and look for a new partner. Aung Gyi, clearly frustrated with the current regime, criticized the Burmese Government's inability to make sound

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economic decisions. "They don't understand economics, how to run a business, or how the aviation sector works," he stated. "My staff are at a loss, and if the political situation does not change soon and tourists do not return to Burma, MAI will shut down operations by the end of December," Aung Gyi concluded.

Air Mandalay: Still Flying, For Now

19. (C) Air Mandalay, which also suffers from lower ticket sales, has yet to limit its international flights, which connect Mandalay with twice weekly flights to Chiang Mai and Kunming, China. Air Mandalay CEO Silva Kuma explained that the majority of Air Mandalay's flights are domestic; because Air Mandalay dominates the domestic market, the company can offset any losses in the international sector. This may change in the future, Silva observed, but for now, Air Mandalay is still flying high.

Comment  
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110. (C) Although Burma's tourist season technically began in October, tourism levels since the political crisis in September have dropped more than 70 percent. The many people involved in the tourist industry, estimated at more than 400,000, are suffering from the loss of business and the Burmese regime has done nothing to address the problem. Airlines such as MAI and Air Mandalay will continue to lose business as tourists shy away from Burma. Unless the government addresses the real political and economic problems facing the country, Burma's economy will continue to deteriorate and the Burmese will face increasingly dire economic circumstances. This leads to the question: how long will the people of Burma tolerate the regime's neglect?

VILLAROSA